BWC Board of Directors

Board Agenda

Bill Lhota, Chairman

March 28, 2008

OCOSH

Room D & E

8 a.m. – 12:00 p.m.

Call to order

Bill Lhota, Chair

Roll Call

Tom Woodruff, Scribe

Bill Lhota, Chair

- Approval of minutes of the February 29, 2008 meeting
- Review meeting agenda

Committee Reports

Actuarial Committee

Chuck Bryan, Committee Chair

- Possible vote Public Employer State Agency Rate rule
- Vote Private Employer Overall Rate Change

Audit Committee

Ken Haffey, Committee Chair

- Rules: Chapter 4167 Public Employment Risk Reduction Program
  Chapter 4123:1-3 Construction Safety

Governance Committee

Alison Falls, Committee Chair

Investment Committee

Bob Smith, Committee Chair

Monthly Financial Report

Tracy Valentino, Chief
Fiscal & Planning Division

Administrator Briefing

Marsha P. Ryan, Administrator

“Deep Dive”

Tour of the OCOSH Building

Adjourn Board Meeting

* Consideration and possible vote

Next meeting: April 25, 2008, 8:00 am – 1:30 pm, Wm. Green Building, L2, Room 3

BWC Board of Directors

Educational Session
Thurs., Feb. 28, 2008, 9:30 A.M.

William Green Building
The Neil Schultz Conference Center
30 West Spring Street, 2nd Floor (Mezzanine)
Columbus, Ohio 43215

Members Present: William Lhota, Chairman
James Harris, Vice Chairman
Charles Bryan
Alison Falls
Philip Fulton
Jim Matesich
Larry Price
Robert Smith
Kenneth Haffey
David Caldwell
James Hummel

Call to order

Mr. Lhota called the meeting to order at 9:30 AM Thursday, February 28, 2008 and roll call was taken. Mr. Lhota reminded members of financial disclosure form filing. Marsha Ryan, BWC Administrator, introduced the new Governor's office liaison, Renuka Mayadev. At 9:35 AM, Director Hummel joined the meeting.

Board Training, Feb. 28, 2008

House Bill 100 mandated training continued Thursday morning.

A presentation was made by Chief Operating Officer, Ray Mazzotta, and Chief of Fiscal and Planning, Tracy Valentino on measuring financial performance. A power point presentation was included, and incorporated by reference, into the minutes. Focus was made on financial soundness, and what constitutes the most valuable information to evaluate. Industry recognized metrics were discussed, including profitability, leverage, liquidity, loss reserve, benchmarking against similar funds, and the AM Best workers compensation composite. Ratios such as the combined, net loss, expense, and operating ratios were discussed. The goal of the combined ratio is 125% to maintain low premiums and solvency. Mr. Bryan inquired as to whether or not compensation expense is net of subrogation collections. Ms.Valentino indicated it is net of subrogation collections. The net loss ratio goal is 120%. The expense ratio goal is 5%. The operating ratio includes investment income from dividends and interest. The operating ratio goal is 100%. The operating cash flow goal is 118%. Ms. Valentino explained that the operating cash flow goal is 118% instead of 100% in order to minimize potential investment portfolio redemptions and to better manage cash flow. Bruce Dunn, Chief Investment Officer, discussed security sales for raising cash. Ms. Valentino stated the ultimate goal is to establish a range of expected results (net investment yield).

Investment to loss reserves goal is 110%. Securities are marked to market value. The next steps are to achieve financial and operational soundness. Ms. Valentino indicated she would deliver the financial report to the Board on Friday, February 29, 2008.

Ms. Ryan instructed Board members that they may have received e-mails that appear to be marked as a “complaint” with the Better Business Bureau of Central Ohio. She noted that BWC’s IT Division has identified these e-mails as “phishing” e-mails that could compromise BWC’s computer system. She asked that the Board members not open these e-mails and delete them.

Recess:

The meeting was recessed by Mr Lhota at 10:46 AM.

BWC Board of Directors
Fri, Feb. 29, 2008, 8:00 A.M.

William Green Building
The Neil Schultz Conference Center
30 West Spring Street, 2nd Floor (Mezzanine)
Columbus, Ohio 43215

Members Present: William Lhota, Chairman
James Harris, Vice Chairman
Charles Bryan
Alison Falls
Philip Fulton
James Hummel
Jim Matesich
Robert Smith
Kenneth Haffey
Larry Price
David Caldwell

Members Absent: None

Call to order
Mr. Lhota reconvened the meeting at 8:00 AM.

Roll call
Roll call was taken. All members except Larry Price and David Caldwell were present. Larry Price joined the meeting at 8:05 AM. David Caldwell joined the meeting at 8:25 AM.

Minutes of the Jan. 25, 2008 meeting
Upon motion by Mr. Bryan and seconded by Mr. Harris, the minutes were approved 9-0.

Mr. Lhota noted one addition to the agenda. Representatives from the Office of the Attorney General will be providing a litigation update to the Board at 9:30 AM. Because the update will address current court action, there will be a need for the Board to go into Executive Session.

Before proceeding to the next item on the agenda, Mr. Lhota noted for the record that Deloitte-Touche does his personal taxes, and that this was disclosed prior to BWC entering into an agreement with Deloitte-Touche to conduct the actuarial audit. Mr. Lhota indicated that Deloitte-Touche's contract is with BWC, not the Board of Directors, and so there is no conflict of interest. In addition, Mr. Lhota stated that he received an Ohio Ethics Commission opinion that found that it is permissible for him to be on both the BWC Board of Directors and the Ohio Chamber of Commerce Board. Nonetheless, Mr. Lhota announced that he has resigned from the Chamber's Board.

Committee reports

Actuarial Committee:
Mr. Bryan reported that the Actuarial Committee was introduced to the members of the Deloitte-Touche team who will be conducting the actuarial audit. In addition, BWC Actuarial staff gave presentations to the Actuarial Committee on the rate-making process.

Audit Committee:
Mr. Haffey discussed approval of eight administrative rules. Motion was made by Mr. Haffey and seconded by Mr. Fulton as follows: that the Bureau of Workers' Compensation Board of Directors approve changes to eight rules of Chapter 4123-17 of the Administrative Code. The rule changes are a result of changes in HB 100 of the 127th General Assembly. The motion consents to the Administrator amending the eight rules of chapter 4123-17 presented here today to: change references from the "Workers' Compensation Oversight Commission" to the "Bureau of Workers' Compensation Board of Directors"; strike paragraph (F)(3) of rule 4123-17-03; change the rule reference in rule 4123-17-40 from paragraph (M) to paragraph (L) of rule 4123-19-03; and correct misspellings of "advice" in two rules.

The vote was as follows:

LHOTA	Y	FALLS	Y	HUMMEL	Y
MATESICH	Y	HARRIS	Y	CALDWELL	absent
FULTON	Y	PRICE	Y	BRYAN	Y
HAFFEY	Y	SMITH	Y		

The motion passed 10-0.

Mr. Haffey reported that there was discussion of possible underfunding of the Surplus Fund with Schneider Downs. He noted that there are legal issues that require more review on this matter. Joe Bell, Chief of Internal Audit, provided comments on outstanding internal audit matters and reviewed the audit project of the Office of Budget and Management. Finally, the Audit Committee went into Executive Session to discuss pending litigation.

Investment Committee:
Mr. Smith discussed the proposed Work Plan with Mercer Consulting. In addition, he noted the portfolio rebalancing protocols that Bruce Dunn, Chief Investment Officer, reviewed with the Investment Committee.

Motion was made by Mr. Smith and seconded by Mr. Price as follows: that the Bureau Board of Directors approve and adopt the recommendation of the Investment Committee to amend current Section III.B of the Statement of Investment Policy and Guidelines for the purpose of revising the responsibilities of the Bureau Investment staff.

The vote was as follows:

LHOTA	Y	FALLS	Y	HUMMEL	Y
MATESICH	Y	HARRIS	Y	CALDWELL	absent
FULTON	Y	PRICE	Y	BRYAN	Y
HAFFEY	Y	SMITH	Y		

The motion passed 10-0.

Motion was made by Mr. Smith and seconded by Ms. Falls as follows: that the Board of Directors approve and adopt the recommendation of the Investment Committee to amend the current Section III.E of the Statement of Investment Policy and Guidelines for the purpose of revising the reporting responsibilities of the Bureau's Investment Consultant.

The vote was as follows:

LHOTA	Y	FALLS	Y	HUMMEL	Y
MATESICH	Y	HARRIS	Y	CALDWELL	absent
FULTON	Y	PRICE	Y	BRYAN	Y
HAFFEY	Y	SMITH	Y		

The motion passed 10-0.

BWC Ethics Website Demonstration

The Governance Committee Report was moved on the agenda to follow the demonstration of the BWC Ethics website. A presentation was made by Bob Coury, Chief Ethics Officer and Chief of Medical Services and Compliance, and Pamela Burton, Computer Education and Technology Manager, concerning ethics. Discussion of the BWC Ethics website was made. Mr. Coury emphasized that the interest of the public is paramount, and that the Bureau must be impartial and fair. Ms. Burton discussed a power point presentation on "Ethics 4 BWC". Frequently asked ethics questions are posted on BWC's website, and an example was discussed at length. Discussion was made of the Inspector Generals' website, as well executive orders of Governor Ted Strickland. The Bureau offers monthly courses on ethics. Mr. Haffey asked how often BWC employees are accessing the frequently asked questions site. Mr. Coury stated that he didn't have exact figures with him at the meeting, but noted that "hits" on the site increase contemporaneously with the release of policy revisions. Mr. Lhota requested that Mr. Coury provide updates to the Board from time to time on the frequency of BWC staff accessing the BWC Ethics website.

Governance Committee:

Alison Falls presented on Governance Committee matters. The Committee met Monday, February 25, 2008. A copy of the Governance Guidelines with revisions made since the Monday meeting was discussed. The Governance Guidelines incorporate HB 100 requirements, governance best practices, fiduciary responsibility, specific and general board duties, procedures, committee duties, ethics, and the oversight process. Fiduciary counsel Ronald O'Keefe provided assistance with the development of the materials. Mr. Price congratulated Ms. Falls on all of her hard work on these Guidelines, noting that the Governance Committee is moving the Board in the right direction. Ms. Falls noted that she expects the Governance Guidelines to be a useful tool in the future for orientation of new Board members. Motion was made by Ms. Falls, and seconded by Mr. Price, as follows: that the Bureau of Workers' Compensation Board of Directors approve the Governance Guidelines, as recommended by the Governance Committee. The motion passed 11-0.

Mr. Fulton left the Board meeting table at 8:40 am, to recuse himself from a discussion of the process and form for the evaluation of the BWC Administrator. The Board is required by law to appraise the performance of the Administrator and to discuss said appraisal with the Governor. The discussion of the performance evaluation process and format shall be conducted in an open meeting. However, a discussion of the evaluation of BWC's Administrator shall be done in Executive Session. A form for the evaluation has been designed, and fiduciary counsel shall assist in the compilation of input.

The exact timing of the process was proposed as follows. By March 27, 2008 the Governance Committee will finalize the evaluation process and form. On March 28, 2008 the Governance Committee will make a presentation to the Board and request approval of the evaluation form. Once approved, each Board member will be given a copy for completion and return to fiduciary counsel by April 11, 2008. Fiduciary counsel will assist Board members should they have questions. The Administrator shall make a presentation in Executive Session to the Board at the March meeting regarding her performance. Fiduciary counsel shall compile the input of the individual Board members to provide to the Board for discussion in Executive Session at its April meeting. After the discussion in Executive Session at the April meeting, the Board will reconvene to an open meeting for a possible vote on the Administrator's performance evaluation report. In May 2008, the Board will schedule a meeting to discuss the Administrator's performance evaluation report with the Governor.

Mr. Bryan asked what precedent there is for this evaluation process of the Administrator. Ms. Ryan answered that it is her understanding that this is the first instance where the BWC Administrator will be evaluated by a Board. Ms. Ryan stated that the Board's feedback is important to her, and that she looks forward to input from the Board on her performance. Mr. Lhota applauded Ms. Ryan on her forthrightness with respect to this process. He also noted that the documents created will ultimately be public record at the conclusion of the review. Ms. Falls stated that the Governance Committee had discussed whether this process should be an oral evaluation or a structured written review. Ultimately, the Governance Committee favored the structured written evaluation process for the Administrator because of the openness it provided. Mr. Harris indicated that it is important to have an objective process in place for evaluating performance and decision making at BWC. Mr. Harris stated that accountability to the public is very important.

The evaluation of the Administrator will include consideration of the flexible performance agreement established by the Governor, characteristics of leadership, planning, integrity, interaction with the Board, interaction with external parties, the number one accomplishment in 2007, and the number one objective for 2008. Mr. Bryan expressed concern about the evaluation form lacking in numeric weighting, and asked whether accomplishments should include some of the financial performance measurements for the agency. Ms. Ryan noted that pursuant to the flexible performance agreement with the Governor, her evaluation should have a policy focus for the first year. This may change in the future, and she may be required to meet certain performance metrics at a later date. It was noted that the evaluation will include ranking on a scale of one though five, along with comments on evaluation points. Ms. Falls pointed out that the Board can modify or add to the current proposed questions. Mr. Smith complimented the Administrator and the Governor on their flexible performance agreement, noting that it is well-focused.

The discussion ended at 9:00 AM, and Mr. Fulton returned to the Board table. Discussion of the Governance Committee's calendar ensued. For the May meeting, the Governance Committee will address a self-assessment program for the Board.

Monthly Financial Report

Tracy Valentino, Chief of Fiscal and Planning, presented the monthly financial report to the Board. A power point presentation was included, and is incorporated by reference, into the minutes. Higher than expected participation in premium discount programs continue to contribute to the year-to-date unfavorable premium trends. Also impacting the monthly financial report is the lower discount rate being used by BWC and a contingent liability from the Ohio Hospital case. Discussion was made of the statement of operations, investment income, net assets, and cash flow. Additional discussion of projected operations, investment income, and cash flows was made. Insurance ratios were reviewed by Ms. Valentino. At this point, BWC is through seven months of the fiscal year, and has remained within its budget. Everything is on track financially with compliance on executive controls and personal service contracts.

Upon motion by Mr. Bryan, and seconded by Mr. Caldwell, the meeting recessed at 9:30 AM for a fifteen minute break. Roll call vote in favor of the break was 11-0.

Mr. Lhota reconvened the meeting at 9:45 AM.

Upon motion by Mr. Bryan, seconded by Mr. Matesich, the Board entered into Executive Session for the purpose of discussing with representatives of the Attorney General's office pending litigation involving BWC. Roll call was taken and motion passed 11-0. Executive session ended at 11:10 am, the meeting was reconvened by motion of Mr. Bryan and seconded by Mr. Caldwell. The roll call vote to reconvene was 11-0.

Deep Dive: Claims Management

Bob Coury, Chief of Medical Services and Compliance, and Stephanie Ramsey, Managed Care Services Director, gave a presentation on medical treatment and reimbursement, and their associated processes. A power point presentation was included, incorporated by reference, into the minutes. Medical management in Ohio workers' compensation claims is guided by the Ohio Revised Code and the Ohio Administrative Code. There are twenty-four Managed Care Organizations ("MCOs") that engage in services such as provider bill pay, authorization of medical services, and medical management. Ms. Ramsey discussed MCO process in detail. Prompt care and return to work are important. The framework for care authorization is based upon an Ohio court case known as the *Miller* case. Covered benefits were discussed at length. Discussion of vocational rehabilitation was also made. Activity and performance is the basis of the contract between the Bureau and the MCOs. Forty-five percent of payment is performance based. Mr. Fulton expressed concern over providers leaving the workers' compensation system, and asked whether BWC is going to address this issue. Mr. Coury stated that eliminating unnecessary barriers is very important to addressing this problem. He noted that blue ribbon panels will be utilized to facilitate assessing these issues.

Administrator Briefing

Ms. Ryan noted that there are plans to have the managed care organization league make a presentation to the Board at its April 2008 meeting. In addition, the next public forum will focus on providers. The Board's calendar of reports is a work in progress, as the Workers' Compensation Council is not complete. Mention was made of the Governor's directive concerning flex time work schedules for state employees. BWC will take a planful approach, and consider what is best for its customers. There will be a comprehensive evaluation. Ms. Ryan reminded the Board of the Safety and Hygiene Congress and Expo, held at the Columbus Convention Center. It is scheduled to be held this year from April 1 to April 3. This event is critical for evaluating, improving and facilitating safety. If interested in attending, Board members may contact Don Berno, Board Liaison, to schedule. The next Board meeting will focus on safety, and will be held at BWC's Pickerington office (OCOSH). Ms. Ryan also noted that it is a statutory duty of the Board to evaluate adjudication processes. BWC is currently working with a group to do a review of some of these processes. This review and its recommendations will be shared with the Board so that individual members can provide recommendations. Ms. Ryan thanked the Board members who were able to attend the Inspector General's recognition ceremony to honor contributions to the Inspector General's task force, which event was held February 27, 2008.

Mr. Matesich thanked Ms. Ryan for providing Board members with additional work space in the William Green Building to facilitate Board work.

Scheduling

The next Board meeting shall be held at OCOSH (13430 Yarmouth Drive, Pickerington OH, rooms D & E), March 28, 2008, 8:00 AM – 1:30 PM.

Adjournment

Upon motion by Mr. Smith, seconded by Mr. Bryan, the meeting was adjourned at 12:10 PM. Roll call was taken, and the motion passed 11-0.

Minutes taken by Tom Woodruff, BWC Staff Counsel

Financial**Report**

March ’08

Ohio Bureau of Workers’ Compensation

Printed within BWC

Financial **Report**

March '08

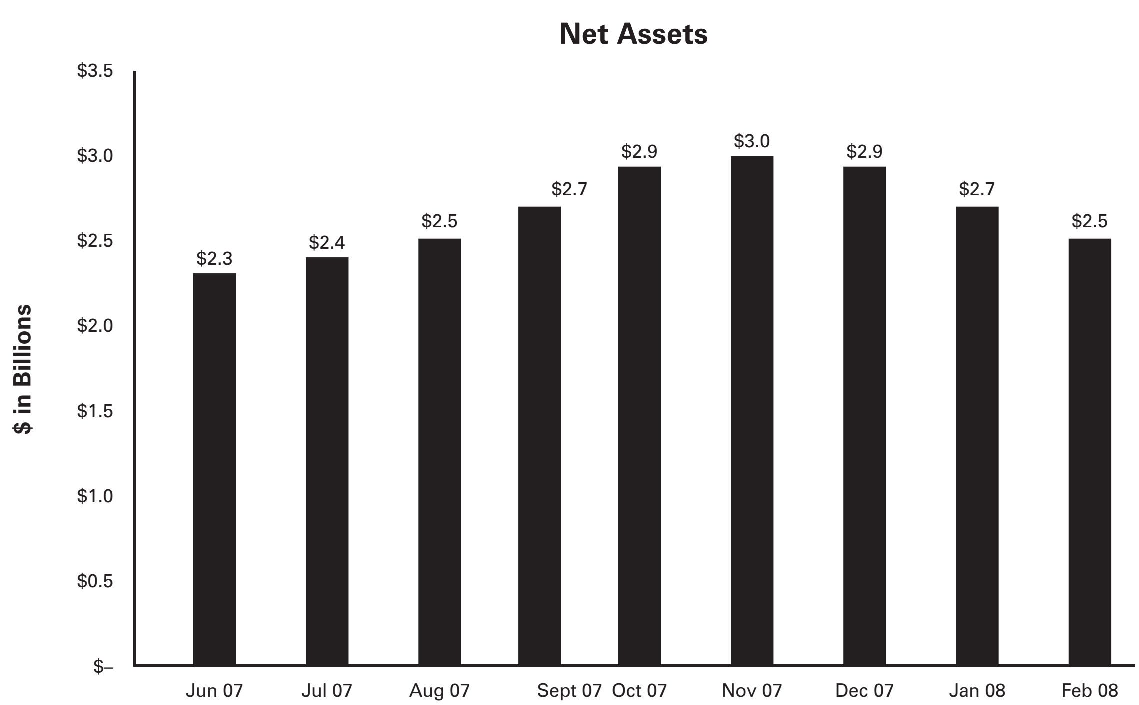
Combined net assets have increased from $2.3 billion at June 30, 2007 to $2.5 billion at February 29, 2008. The 2008 fiscal year-to-date increase in net assets of $227 million is due to the following:

- Net investment income of $985 million, which includes interest and dividends of $542 million, an increase of $451 million in the fair value of the investment portfolio, and investment expenses of $8 million.
- Operating losses of $758 million, which partially off-sets net investment income.

	Fiscal year 2008 As of February 29	**Fiscal year 2007** As of February 28	
Operating Revenues	$1,509 million	$1,649 million	$140 million decrease
Operating Expenses	$2,267 million	$1,792 million	$475 million increase
Net Investment Income	$985 million	$1,036 million	$51 million decrease
Net Assets	$2.5 billion	$766 million	$1.8 billion increase

Contributing to the significant increase in net assets is a statutory change impacting the Disabled Workers' Relief Fund that increased net assets by $1.9 billion at fiscal year end 2007.

Operating expenses for fiscal year-to-date 2008, include the latest reserve projections prepared by BWC's actuarial consultants using payment trends through December 31, 2007. The actuarial projections for fiscal year-to-date 2008 have increased reserves for compensation and compensation adjustment expenses by $573 million in fiscal year 2008 compared to a $220 million increase for this same period in fiscal year 2007. A significant factor in this increase is the change in the discount rate from 5.25 percent to 5.0 percent at June 30, 2007 and a $69 million increase in benefit payments driven by increased lump sum settlements. Also contributing to increased operating expenses is a $73 million liability for hospital reimbursements that will be made as a result of the Ohio Hospital Association's lawsuit disputing fee schedules that were not adopted through the Ohio Revised Code Chapter 119 rules process.



Statement of **Operations**

Fiscal year to date February 29, 2008

(in millions)	Actual	Projected	Variance	Prior Yr. Actual	Increase (Decrease)
Total operating revenues	$ 1,509	$ 1,730	$ (221)	$ 1,649	$ (140)
Total operating expenses	2,267	2,396	129	1,792	475
Net operating gain (loss)	(758)	(666)	(92)	(143)	(615)
Net investment income	985	398	587	1,036	(51)
Increase (decrease) in net assets	227	(268)	495	893	(666)
Net assets beginning of period	2,306	2,306	–	(127)	2,433
Net assets end of period	$ 2,533	$ 2,038	$ 495	$ 766	$ 1,767

Statement of **Operations**

Fiscal year to date February 29, 2008

(in millions)	Actual	Projected	Variance	Prior Yr. Actual	Increase (Decrease)
Operating revenues					
Premium & assessment income	$ 1,538	$ 1,752	$ (214)	$ 1,670	$ (132)
Provision for uncollectibles	(36)	(27)	(9)	(28)	(8)
Other income	7	5	2	7	–
Total operating revenues	1,509	1,730	(221)	1,649	(140)
Operating expenses					
Benefits & compensation adj. expense	2,206	2,332	126	1,730	476
Other expenses	61	64	3	62	(1)
Total operating expenses	2,267	2,396	129	1,792	475
Net operating gain (loss)	(758)	(666)	(92)	(143)	(615)
Investment income					
Interest and dividend income	542	541	1	550	(8)
Realized & unrealized capital gains (losses)	451	(132)	583	493	(42)
Investment manager and operational fees	(8)	(11)	3	(7)	1
Gain (loss) on disposal of fixed assets	–	–	–	–	–
Net investment income	985	398	587	1,036	(51)
Increase (decrease) in net assets	227	(268)	495	893	(666)
Net assets beginning of period	2,306	2,306	-	(127)	2,433
Net assets end of period	$ 2,533	$ 2,038	$ 495	$ 766	$ 1,767

Statement of **Operations - Combining** Schedule

Fiscal year to date February 29, 2008

(in thousands)	State Insurance Fund account	Disabled Workers' Relief Fund account	Coal-Workers Pneumoconiosis Fund account	Public Work-Relief Employees' Fund account	Marine Industry Fund account	Self-Insuring Employers' Guaranty Fund account	Administrative Cost Fund account	Totals
Operating revenues								
Premium & assessment income	$ 1,197,174	$ 96,397	$ 577	$ 42	$ 533	$ 765	$ 243,290	$ 1,538,778
Provision for uncollectibles	(28,448)	(2,922)	–	–	–	(161)	(4,051)	(35,582)
Other income	5,234	–	–	–	–	–	1,393	6,627
Total operating revenues	1,173,960	93,475	577	42	533	604	240,632	1,509,823
Operating expenses								
Benefits & compensation adj. expense	1,914,562	89,293	788	356	449	491	199,341	2,205,280
Other expenses	11,795	237	73	1	52	2	49,936	62,096
Total operating expenses	1,926,357	89,530	861	357	501	493	249,277	2,267,376
Net operating income (loss) before operating transfers out	(752,397)	3,945	(284)	(315)	32	111	(8,645)	(757,553)
Operating transfers out	(2,292)	–	–	–	–	–	2,292	–
Net operating income (loss)	(754,689)	3,945	(284)	(315)	32	111	(6,353)	(757,553)
Investment income								
Investment income	494,752	34,747	7,456	624	457	1,594	2,268	541,898
Bonds - realized & unrealized gains (losses)	832,234	42,879	9,564	50	36	–	–	884,763
Equities - realized & unrealized gains (losses)	(405,337)	(23,148)	(5,219)	–	–	–	–	(433,704)
Total realized & unrealized capital gains (losses)	426,897	19,731	4,345	50	36	–	–	451,059
Investment manager and operational fees	(7,802)	(24)	(5)	–	–	–	–	(7,831)
Gain (loss) on disposal of fixed assets	–	–	–	–	–	–	(53)	(53)
Total non-operating revenues, net	913,847	54,454	11,796	674	493	1,594	2,215	985,073
Increase (decrease) in net assets (deficit)	159,158	58,399	11,512	359	525	1,705	(4,138)	227,520
Net assets (deficit) beginning of period	2,080,045	800,185	171,741	18,295	13,802	6,208	(784,730)	2,305,546
Net assets (deficit) end of period	$ 2,239,203	$ 858,584	$ 183,253	$ 18,654	$ 14,327	$ 7,913	$ (788,868)	$ 2,533,066

Statement of **Investment Income**

Fiscal year to date February 29, 2008

	Actual	Projected	Variance	Prior Yr. Actual	Increase (Decrease)
Investment income					
Bond interest	$ 480,865,287	$ 491,200,000	$ (10,334,713)	$ 510,454,277	$ (29,588,990)
Dividend income (dom & int'l)	40,439,306	38,400,000	2,039,306	9,555,905	30,883,401
Money market/ commercial paper income	13,241,485	8,320,000	4,921,485	12,238,465	1,003,020
Misc. income (corp actions, etc.)	3,433,578	2,400,000	1,033,578	2,759,990	673,588
Private equity	3,918,992	700,000	3,218,992	11,291,053	(7,372,061)
Securities lending income, net of fees	–	–	–	3,729,939	(3,729,939)
Total investment income	541,898,648	541,020,000	878,648	550,029,629	(8,130,981)
Realized & unrealized capital gains and (losses)					
Bonds - Net realized gains (losses)	(71,782,115)	–	(71,782,115)	105,444,327	(177,226,442)
Bonds - Net unrealized gains	956,546,016	(275,000,000)	1,231,546,016	412,217,663	544,328,353
Subtotal - bonds	884,763,901	(275,000,000)	1,159,763,901	517,661,990	367,101,911
Stocks - Net realized gains (losses)	45,690,377	–	45,690,377	(4,598,480)	50,288,857
Stocks - Net Unrealized gains (losses)	(433,426,811)	143,040,000	(576,466,811)	(41,461,355)	(391,965,456)
Subtotal - stocks	(387,736,434)	143,040,000	(530,776,434)	(46,059,835)	(341,676,599)
Net gain (loss) - PE	(45,967,205)	–	(45,967,205)	20,976,249	(66,943,454)
Change in portfolio value	451,060,262	(131,960,000)	583,020,262	492,578,404	(41,518,142)
Investment manager & operational fees	(7,831,697)	(10,594,000)	2,762,303	(6,805,743)	1,025,954
Net investment income	$ 985,127,213	$ 398,466,000	$ 586,661,213	$1,035,802,290	$ (50,675,077)

Statement of **Net Assets**

As of February 29, 2008

(in millions)	Actual	Projected	Variance	Prior Yr. Actual	Increase (Decrease)
Assets					
Bonds	$ 13,851	$ 13,451	$ 400	$ 13,321	$ 530
Stocks	3,258	3,362	(104)	2,449	809
Private equities	26	–	26	438	(412)
Cash & cash equivalents	761	491	270	2,570	(1,809)
Total cash and investments	17,896	17,304	592	18,778	(882)
Accrued premiums	4,525	4,487	38	3,097	1,428
Other accounts receivable	143	321	(178)	209	(66)
Investment receivables	331	183	148	1,267	(936)
Other assests	116	115	1	124	(8)
Total assets	$ 23,011	$ 22,410	$ 601	$ 23,475	$ (464)
Liabilities					
Reserve for compensation and compensation adj. Expense	$ 19,844	$ 19,974	$ 130	$ 19,147	$ 697
Accounts payable	92	144	52	136	(44)
Investment payable	232	–	(232)	2,765	(2,533)
Other liabilities	310	254	(56)	661	(351)
Total liabilities	20,478	20,372	(106)	22,709	(2,231)
Net assets	$ 2,533	$ 2,038	$ 495	$ 766	$ 1,767

Statement of **Net Assets - Combining** Schedule

As of February 29, 2008

(in thousands)	State Insurance Fund account	Disabled Workers' Relief Fund account	Coal-Workers Pneumoconiosis Fund account	Public Work-Relief Employees' Fund account	Marine Industry Fund account	Self-Insuring Employers' Guaranty Fund account	Administrative Cost Fund account	Eliminations	Totals
Assets									
Bonds	$ 12,736,989	$ 921,244	$ 193,121	$ –	$ –	$ –	$ –	$ –	$ 13,851,354
Stocks	3,003,820	206,806	47,204	–	–	–	–	–	3,257,830
Private equities	26,125	–	–	–	–	–	–	–	26,125
Cash & cash equivalents	639,177	23,224	4,834	22,372	16,605	52,576	1,790	–	760,578
Total cash and investments	$ 16,406,111	$ 1,151,274	$ 245,159	$ 22,372	$ 16,605	$ 52,576	$ 1,790	$ –	$ 17,895,887
Accrued premiums	1,954,992	1,645,700	–	254	–	678,627	245,745	–	4,525,318
Other accounts receivable	68,451	22,859	7	1	–	3,390	48,818	–	143,526
Interfund receivables	13,120	59,665	12	–	17	5,480	71,470	(149,764)	–
Investment receivables	308,234	17,962	4,260	63	46	152	–	–	330,717
Other assets	25,731	22	–	–	–	–	90,158	–	115,911
Total assets	$ 18,776,639	$ 2,897,482	$ 249,438	$ 22,690	$ 16,668	$ 740,225	$ 457,981	$ (149,764)	$ 23,011,359
Liabilities									
Reserve for comp and comp adj. Expense	$ 15,924,373	$ 2,013,687	$ 62,275	$ 4,025	$ 2,022	$ 730,524	$ 1,107,168	$ –	$ 19,844,074
Accounts payable	91,442	–	–	–	–	–	281	–	91,723
Investment payable	215,520	13,364	3,122	–	–	–	–	–	232,006
Interfund payables	136,004	11,847	79	11	35	1,788	–	(149,764)	–
Other liabilities	170,097	–	709	–	284	–	139,400	–	310,490
Total liabilities	16,537,436	2,038,898	66,185	4,036	2,341	732,312	1,246,849	(149,764)	20,478,293
Net assets	$ 2,239,203	$ 858,584	$ 183,253	$ 18,654	$ 14,327	$ 7,913	$ (788,868)	$ -	$ 2,533,066

Statement of **Cash Flows**

Fiscal year to date February 29, 2008

(in millions)	Actual	Projected	Variance	Prior Yr. Actual	Increase (Decrease)
Cash flows from operating activities:					
Cash receipts from premiums	$ 1,917	$ 1,980	$ (63)	$ 1,780	$ 137
Cash receipts – other	18	13	5	19	(1)
Cash disbursements for claims	(1,461)	(1,488)	27	(1,389)	(72)
Cash disbursements for other	(325)	(275)	(50)	(385)	60
Net cash provided (used) by operating activities	149	230	(81)	25	124
Net cash flows from capital and related financing activities	(4)	(3)	(1)	(6)	2
Net cash provided (used) by investing activities	288	(64)	352	2,357	(2,069)
Net increase (decrease) in cash and cash equivalents	433	163	270	2,376	(1,943)
Cash and cash equivalents, beginning of period	328	328	–	194	134
Cash and cash equivalents, end of period	$ 761	$ 491	$ 270	$ 2,570	$ (1,809)

Projected Statement of **Operations**

July 1, 2007 – June 30, 2008

(in millions)	**Actual quarter** Sept. 30, 2007	**Actual quarter** Dec. 31, 2007	**Actual** Jan. 31, 2008	**Actual** Feb. 29, 2008	**Projected** March 31, 2008
Total operating revenues	$ 614	$ 555	$ 147	$ 193	$ 212
Total operating expenses	846	757	391	273	284
Net operating gain (loss)	(232)	(202)	(244)	(80)	(72)
Net investment income	595	417	67	(94)	48
Increase (decrease) in net assets	363	215	(177)	(174)	(24)
Net assets beginning of period	2,306	2,669	2,884	2,707	2,533
Net assets end of period	$ 2,669	$ 2,884	$ 2,707	$ 2,533	$ 2,509

(in millions)	**Projected quarter** March 31, 2008	**Projected quarter** June 30, 2008	**Projected fiscal year** June 30, 2008
Total operating revenues	552	$ 615	$ 2,336
Total operating expenses	948	918	3,469
Net operating gain (loss)	(396)	(303)	(1,133)
Net investment income	21	143	1,176
Increase (decrease) in net assets	(375)	(160)	43
Net assets beginning of period	2,884	2,509	2,306
Net assets end of period	$ 2,509	$ 2,349	$ 2,349

Projected Statement of **Investment Income**

July 1, 2007 – June 30, 2008

	Actual quarter Sept. 30, 2007	Actual quarter Dec. 31, 2007	Actual Jan. 31, 2008	Actual Feb. 29, 2008	Projected March 31, 2008
Investment income					
Bond interest	$ 170,837,561	$ 179,091,859	$ 77,502,719	$ 53,433,148	$ 63,300,000
Dividend income (dom & int'l)	11,816,616	17,001,017	3,833,627	7,788,046	4,800,000
Money market/ commercial paper income	5,968,397	5,164,994	861,513	1,246,581	1,040,000
Misc. income (corp actions, etc.)	1,624,628	1,176,996	215,654	416,300	300,000
Private equity	4,479,448	(560,457)	–	–	–
Securities lending income, net of fees	–	–	–	–	–
Total investment income	194,726,650	201,874,409	82,413,513	62,884,075	69,440,000
Realized & unrealized capital gains and (losses)					
Net realized gain (loss) - stocks (dom & int'l)	44,796,048	853,773	74,238	(33,682)	–
Net realized gain (loss) - bonds	(85,222,392)	17,846,285	(6,347,088)	1,941,080	–
Net gain (loss) - PE	7,929,472	(48,158,746)	(3,166,670)	(2,571,261)	–
Unrealized gain (loss) - stocks (dom & int'l)	11,494,142	(129,972,821)	(204,729,497)	(110,218,635)	17,880,000
Unrealized gain (loss) - bonds	422,701,156	379,418,137	199,775,739	(45,349,016)	(39,500,000)
Change in portfolio value	401,698,426	219,986,628	(14,393,278)	(156,231,514)	(21,620,000)
Investment manager & operational fees	(1,414,416)	(5,022,594)	(416,109)	(978,578)	(281,000)
Net investment income	$ 595,010,660	$ 416,838,443	$ 67,604,126	$ (94,326,017)	$ 47,539,000

	Projected quarter March 31, 2008	Projected quarter June 30, 2008	Projected fiscal year June 30, 2008
Investment income			
Bond interest	$ 194,235,867	$ 189,900,000	$ 734,065,287
Dividend income	16,421,673	15,100,000	60,339,306
Money market/ commercial paper income	3,148,094	3,120,000	17,401,485
Misc. income (corp actions, etc.)	931,954	900,000	4,633,578
Private equity	–	–	3,918,991
Securities lending income, net of fees	–	–	–
Total investment income	214,737,588	209,020,000	820,358,647
Realized & unrealized capital gains and (losses)			
Net realized gain (loss) - stocks (dom & int'l)	40,556	–	45,690,377
Net realized gain (loss) - bonds	(4,406,008)	–	(71,782,115)
Net gain (loss) - PE	(5,737,931)	–	(45,967,205)
Unrealized gain (loss) - stocks (dom & int'l)	(297,068,132)	54,780,000	(360,766,811)
Unrealized gain (loss) - bonds	114,926,723	(118,500,000)	798,546,016
Change in portfolio value	(192,244,792)	(63,720,000)	365,720,262
Investment expenses-manager & operational fees	(1,675,687)	(1,909,000)	$ (10,021,697)
Net investment income	$ 20,817,109	$ 143,391,000	$ 1,176,057,212

Projected Statement of **Cash Flows**

July 1, 2007 – June 30, 2008

(in millions)	Actual quarter Sept. 30, 2007	Actual quarter Dec. 31, 2007	Actual Jan. 31, 2008	Actual Feb. 29, 2008	Projected March 31, 2008
Cash flows from operating activities:					
Cash receipts from premiums	$ 867	$ 240	$ 212	$ 598	$ 159
Cash receipts – other	5	10	2	1	2
Cash disbursements for claims	(535)	(563)	(183)	(180)	(177)
Cash disbursements for other	(112)	(123)	(47)	(43)	(30)
Net cash provided (used) by operating activities	225	(436)	(16)	376	(46)
Net cash flows from capital and related financing activities	(4)	–	–	–	(17)
Net cash provided (used) by investing activities	89	110	377	(288)	–
Net increase (decrease) in cash and cash equivalents	310	(326)	361	88	(63)
Cash and cash equivalents, beginning of period	328	638	312	673	761
Cash and cash equivalents, end of period	$ 638	$ 312	$ 673	$ 761	$ 698

(in millions)	Projected quarter March 31, 2008	Projected quarter June 30, 2008	Projected fiscal year June 30, 2008
Cash flows from operating activities:			
Cash receipts from premiums	$ 969	$ 439	$ 2,515
Cash receipts – other	5	5	25
Cash disbursements for claims	(540)	(576)	(2,214)
Cash disbursements for other	(120)	(98)	(453)
Net cash provided (used) by operating activities	314	(230)	(127)
Net cash flows from capital and related financing activities	(17)	–	(21)
Net cash provided (used) by investing activities	89	–	288
Net increase (decrease) in cash and cash equivalents	386	(230)	140
Cash and cash equivalents, beginning of period	312	698	328
Cash and cash equivalents, end of period	$ 698	$ 468	$ 468

Insurance **Ratios**

February 29, 2008

	Actual FY08 Feb. 29, 2008	Projected FY08 Feb. 29, 2008	Actual FY07 Feb. 28, 2007
Loss ratio	117.95%	107.90%	80.75%
Lae ratio - MCO	12.29%	11.42%	7.87%
Lae ratio - BWC	13.07%	13.77%	14.97%
Net loss ratio	143.31%	133.09%	103.59%
Expense ratio	4.04%	3.65%	3.74%
Policyholder dividend ratio	0.00%	0.00%	0.00%
Combined ratio	147.35%	136.74%	107.33%
Net investment income ratio	34.71%	30.28%	32.53%
Operating ratio (trade ratio)	112.64%	106.46%	74.80%
Operating Cashflow Ratio	139.60%	109.40%	126.27%
Total Reserves to Net Assets	8 to 1	10 to 1	25 to 1
Investments to Loss Reserves	90.18%	86.63%	98.07%
Equities to Net Assets	1.3 to 1	1.6 to 1	3.2 to 1
Bonds to Net Assets	5.5 to 1	6.6 to 1	17.4 to 1

Fiscal Year End Insurance **Ratios**

Fiscal years ended June 30, 2003 – 2008

	Projected June 30, 2008	Audited				
		FY 07	FY06	FY05	FY04	FY03
Loss ratio	115.6%	46.9%	74.3%	106.7%	96.7%	128.9%
LAE Ratio - MCO	11.5%	3.8%	8.6%	7.1%	9.1%	8.8%
LAE Ratio - BWC	13.2%	10.9%	6.4%	14.7%	8.3%	12.9%
Net loss ratio	140.3%	61.6%	89.3%	128.5%	114.2%	150.6%
Expense ratio	3.9%	2.3%	4.0%	4.0%	5.1%	4.1%
Policyholder dividend ratio	0.0%	0.0%	-0.4%	10.3%	18.6%	28.7%
Combined ratio	144.2%	63.9%	92.9%	142.8%	137.9%	183.4%
Net investment income ratio	33.7%	18.5%	30.4%	22.1%	20.5%	23.9%
Operating ratio (trade ratio)	110.5%	45.4%	62.5%	120.7%	117.3%	159.5%

Note 1: FY 07 ratios have been significantly impacted by a statutory change in accounting for the Disabled Workers' Relief Fund that increased premium and assessment income by $1.9 billion.

Note 2: FY 06 ratios have been significantly impacted by improvements in medical payment trends that contributed to a reduction of approximately $1 billion in loss expenses.

Operating Cashflow Ratio	106.0%	114.2%	121.8%	94.0%	96.1%	50.8%
Total Reserves to Net Assets	9 to 1	8 to 1	-149 to 1	-19.5 to 1	19 to 1	29 to 1
Investments to Loss Reserves	88.1%	86.9%	85.7%	86.8%	100.5%	101.1%
Equities to Net Assets	1.5 to 1	1.1 to 1	0	-6.4 to 1	6.8 to 1	8.7 to 1
Bonds to Net Assets	5.9 to 1	5.8 to 1	-123 to 1	-8.3 to 1	9.2 to 1	15.7 to 1

<u>Active Bills</u>

HB 431—Rep. Patton (R-Strongsville) Rebuttable presumption--Firefighter or EMS worker contract cancer or contagious or infectious disease while performing official duties.

- Provides that a firefighter or EMS worker who is disabled as a result of cancer or certain contagious or infectious diseases is presumed for purposes of laws governing workers' compensation and the Ohio Police and Fire Pension Fund to have incurred the disease while performing official duties.
- Introduced 1/15/08, referred to House Commerce and Labor Committee "HCL"
- Sponsor testimony in HCL on 2/19/08
- 2nd Hearing Proponent Testimony on 3/11/08 in HCL
- The bill, if enacted, would likely result in premium increases for public entities that employee firefighters and EMS. Increases would also be expected for private EMS/ambulatory companies.

HB 456—Rep. Raussen (R-Springdale) Healthcare Reform – Ohio C.A.R.E.

- The bill creates two BWC discount programs as an incentive to employers to implement wellness measures for their employees:
  - Up to a 15% discount, for up to three years, for qualifying employers who offer a qualifying health insurance plan to employees that previously did not offer such a plan.
  - Up to a 5% discount, for up to three years, for qualifying employers who offer a health and wellness program for their employers.
  - Employers eligible for both programs may receive up to a 20% premium discount on top of any other BWC premium discounts they are already receiving.
- The bill creates the Office of Pharmaceutical Purchasing Coordination (OPPC) within the Department of Administrative Services (DAS.)
  - All BWC pharmaceutical purchases would be made through this office unless written documentation were provided to DAS demonstrating that BWC was able to obtain prescriptions at the cost by which OPPC would obtain them.
- Sponsor Testimony provided by Rep. Raussen on 2/06/08. Rep. Raussen indicated the bill is and will be a work in progress, a starting point. The House Health Care Access and Affordability Committee will continue to hear testimony in the weeks and months ahead. Hearings will be scheduled by subject matter.
- John Pedrick, Gregg Paul, and Laura Abu-Absi met with Rep. Raussen on 3/12/08 to express some concerns with the discount programs.
- BWC premium discounts for businesses and statewide purchasing of pharmaceutical benefits scheduled to be heard on 4/30/08 or 5/1/08

HB 397/SB 290—Rep. Szollosi (D-Oregon) Sen. Wagoner (R-Maumee) -- Eliminates concurrent jurisdiction.

- Exempts workers covered under federal Longshore and Harbor Workers' Compensation Act (LHWCA) from state coverage unless it is elected by the employer
- Proponent testimony provided for HCL 2/5/08—Keith Flagg, Federal Marine Terminals, Inc, Lauri Justen, Midwest Terminals of Toledo International, Inc., Tony Fiore, Ohio Chamber of Commerce.
- BWC has concerns that proposed language by OCC and OATL would expose BWC's State Insurance Fund to risks for which we are not collecting premium. BWC has drafted an alternative amendment which would clarify when an IW elects exclusive remedy under the FLWCA.
- Sen. Wagoner introduced companion bill SB 290 (2/12/08.)
- 4th Hearing Proponent/Opponent/Interested Party hearing Amendment on 3/11/08. BWC supports inclusion of the amendment which clarifies that the exclusive remedy for an injured longshore and harbor employee is the LHWCA, unless the longshore and harbor employee is engaged in work activities not covered under the LHWCA. In these limited instances an injured longshore and harbor employee would file a state claim.

HB 461—Rep. Batchelder)/SB287 (Stivers)

- Creates a deductible program for the first $15,000 of every claim. The intent is to eliminate the first $15,000 of any injury from an employer's experience rating.
  - The sponsors cite stats used in our group rating materials in terms of premium increases and their negative impact on employers to demonstrate need for the program.
- Would have all $15K program claims managed by the MCO's and would enable employers to use BWC's fee schedule.
  - In the current $15K medical-only program, employers completely bypass the BWC system, working directly with medical providers
  - This would be an increased administrative burden on BWC
  - The sponsors cite the fact that currently, claims in the $15K medical-only program are the only state fund claims in any BWC program that cannot have their claims managed by the MCOs.
- Referred to House Insurance Committee and Senate Insurance, Commerce and Labor Committee, respectively the week of 2/11– not yet scheduled for sponsor testimony.
- Legislative Affairs and CAO John Pedrick conducted conference call with Rep. Batchelder on 3/3/08. Rep. Batchelder requested memo of concern from BWC and indicated he would express these concerns should he give sponsor testimony.

Pneumoconiosis Fund – use of portion of interest for ODNR Mine Safety Program.

- 8/07 – memo prepared regarding the statutory constraints of using this fund for any other purpose than compensation for death or total disability as a result of this disease.
- 10/5/07-- Actuarial, Investments, Finance, and Legal met with Governor's Office and ODNR to discuss process and legislation for using a portion of the interest for the Fund.
- 10/26/07 – Administrator Ryan presented high-level concept to Board of Directors in her report
- 2/26/08--BWC and Governor's office met with Sen. Stivers (R-Columbus) relative to Fund and Mine Safety Program. Sen. Stivers indicated that while he supports the measure as a short-term funding solution, ODNR and the Administration should seek a long-term funding solution outside of the Pneumoconiosis Fund interest.
- Legislative Affairs has drafted legislative language and has forwarded the legislative draft to ODNR and Governor's office for review. Legislation will likely be introduced sometime in March with possible committee hearings in April.